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No. 85-73

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1984

FREEDOM SAVINGS AND LOAN ASSOCIATION,
*Petitioner,*

*v.*

VERNON WAY, JR., D/B/A FREEDOM REALTY,
*Respondent.*

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE ELEVENTH CIRCUIT

## RESPONDENT'S BRIEF IN OPPOSITION

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## QUESTIONS PRESENTED FOR REVIEW

1. Is a finding by the Trademark Trial and Appeal Board as to likelihood of confusion of marks, entered after an evidentiary hearing in a contested trademark registration opposition proceeding, entitled to collateral estoppel effect in a subsequent infringement action between the same parties in a federal district court?[1]

2. Does a district court violate the rule of law set by the Supreme Court in *Morgan v. Daniels, infra,* that a finding of confusing similarity of marks by the Patent Office must be accepted as controlling absent the contrary established by evidence, which in character and amount carries thorough conviction, when the district court refuses to allow entry of the administrative decision or any reference to the same during trial?

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[1] Respondent has re-cast the question, pursuant to Rule 34.2.

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The respondent Vernon Way, Jr., d/b/a Freedom Realty, respectfully requests that the Court deny the petition for writ of certiorari seeking review of the Eleventh Circuit's April 15, 1985 decision in this case.

## STATEMENT OF THE CASE

Petitioner's statement of the case is generally accurate, and respondent accepts it, with the following clarifications.

First, petitioner's assertion that the events giving rise to this litigation commenced in November, 1978, when respondent applied for federal registration of his service mark, is quite subjective. In light of the laches defense asserted by respondent in the district court, it was significant that he began using his mark

with petitioner's knowledge in November, 1976. (App. B., p. 23a; C., pp. 65a-66a)[2] The district court cited laches as an alternative basis for its judgment in respondent's favor, a ruling the court of appeals did not reach in light of its disposition of the other issues in the case. (App. B., pp. 52a-53a; C., p. 104a, n. 8) In addition, in the district court respondent prevailed on his counterclaim for injunctive relief against petitioner, based on his common law right arising from his first use of the mark "Freedom Realty". The court of appeals affirmed an injunction against petitioner's use of that mark in Hillsborough County, Florida. (App. B., pp. 61a-62a; C., pp. 108a-110a)

Second, petitioner's description of the evidentiary ruling challenged in its second question is overbroad and omits an important detail. As the court of appeals noted, the district court excluded reference to the Trademark Trial and Appeal Board (TTAB) proceedings in front of the jury, but left petitioner free to present the same evidence that the TTAB had considered. (App. C., p. 76c) Especially since petitioner failed to proffer any of the excluded material for the record, it was impossible for the court of appeals to determine whether that, in fact, was done. (App. C., p. 77a)

Moreover, and contrary to the assertion at page 20 of the petition, after the jury was excused in favor of a bench trial the district court rescinded the ruling and announced that the material could be introduced. Nevertheless, petitioner's attorneys thereafter forewent numerous opportunities to introduce the TTAB ruling and other aspects of its proceeding into evidence. Still, the district court studied and considered the TTAB decision before rendering judgment in respondent's favor. (App. B., pp. 49a-50a, n. 8; C., pp. 75a-77a) Consequently, the court of appeals declined to address the propriety of the initial evidentiary ruling. The court observed that since the district court considered the TTAB ruling in its deliberation, and since the exclusion of the evidence was ultimately the result of

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[2] References are to the appendix to the petition for writ of certiorari, which respondent adopts.

counsel's choice and not of the prior evidentiary ruling, any error by the district court in initially excluding the evidence was harmless. (App. C., p. 77a)

Finally, insofar as it implies that the court of appeals acknowledged a decisional conflict, petitioner's claim that the court below "refused to follow" the Eighth Circuit's decision in *Flavor Corporation v. Kemin Industries, Inc.*, 493 F.2d 275 (8th Cir. 1974), is inaccurate. Rather, the court below noted the *Flavor Corporation* decision, and described why it did not apply to the disposition of the issue before it. (App. C., p. 74a, n. 2) In other words, *Flavor Corporation* was not rejected; it was distinguished.

## REASONS FOR DENYING THE WRIT

### SUMMARY

QUESTION ONE. The question whether the TTAB finding of likelihood of confusion of the parties' marks was entitled to preclusive effect is academic to this case in light of the legal and factual issues presented by respondent's laches defense and his counterclaim based on his pre-existing common law rights to his mark.

Moreover, the court of appeals' treatment of the TTAB finding was consistent with the principles described by this Court in *United States v. Utah Construction and Mining Company, infra*, and by the Eighth Circuit in *Flavor Corporation of American v. Kemin Industries, Inc., infra*. Both courts recognized the importance of Congressional intentions about whether the decisions of an administrative board should be accorded preclusive effect. In the statutory scheme for federal registration of trademarks, the TTAB is imbued with none of the hallmarks of a Congressional intent that its findings should be final and conclusive. To the contrary, Congress affirmatively intended that the TTAB's findings are *not* to be accorded preclusive effect.

The court of appeals' treatment of the TTAB finding was fully consistent with the board's position in the administrative scheme devised by Congress, with Congress's intention with respect to whether the board's findings should be accorded preclusive effect, with the well-established principle that federal registration of trademarks does not affect a party's existing common law rights to his mark, and with the notion that deference should nevertheless be paid to the board's expertise. The court of appeals' decision does not depart from *Utah Construction*, *Flavor Corporation*, or any other decision of this Court or a court of appeals.

QUESTION TWO. This question, as well, is academic. The court of appeals did not address the propriety of the district court's evidentiary ruling because petitioner failed to proffer the material it wished to introduce for the record when the ruling was extant, and failed to introduce the material despite many opportunities to do so after the order was rescinded by the district court. The court of appeals' application of well-established rules of appellate review did not depart from any judicial precedent.

## ARGUMENT

### QUESTION ONE

IS A FINDING BY THE TRADEMARK TRIAL AND APPEAL BOARD AS TO LIKELIHOOD OF CONFUSION OF MARKS, ENTERED AFTER AN EVIDENTIARY HEARING IN A CONTESTED TRADEMARK REGISTRATION OPPOSITION PROCEEDING, ENTITLED TO COLLATERAL ESTOPPEL EFFECT IN A SUBSEQUENT INFRINGEMENT ACTION BETWEEN THE SAME PARTIES IN A FEDERAL DISTRICT COURT?

Initially, it should be pointed out that the disposition of this issue in petitioner's favor would not afford it success in the litigation.

Assuming, arguendo, that the TTAB finding of likelihood of confusion of the parties' marks was entitled to preclusive effect, it was not dispositive of the infringement action in light of the legal and factual issues presented by respondent's laches defense and his assertion of pre-existing common law rights to his mark. Of course, those issues were outside the ambit of the TTAB's function in the federal trademark registration scheme, and the propriety vel non of the lower courts' rulings in those respects is not raised in the petition.

Moreover, petitioner elected not to introduce evidence of the TTAB proceeding at trial. Indeed, the material was not even proferred for the record during the limited time the district court's order excluding it from evidence was extant.

It thus appears that in the context of the instant case, petitioner's question is academic. In any event, the ruling of the court of appeals on this question was correct; it presented no conflict with any decision of this Court or of another circuit court of appeals.

In *United States v. Utah Construction and Mining Co.*, 384 U.S. 394 (1966), the Court did, indeed, observe generally that

the principles of collateral estoppel and res judicata could apply to findings of administrative boards where the specified conditions were met. But it is important to note the context in which the Court spoke, for it was in that context that the Court offered its reasons for the observation.

In *Utah Construction* the Court pointed out that both the contract and the legislation at issue there "categorically" stated that the administrative board's findings on factual issues were to be "final and conclusive on the parties." *Id.*, at 419. The Court cited a House of Representatives report which characterized the finality provision as "encourag[ing] the parties to make a complete disclosure at the administrative level, rather than holding evidence back for subsequent litigation." *Id.*, at 420.

The importance of Congress's intent was carried over to the Court's discussion of the applicability of general principles of collateral estoppel, which was prefaced with footnote 18. There, the Court quoted at length Judge Davis's dissent from the court of appeals' decision under review in that case. The reluctance of the majority to apply collateral estoppel principles to administrative decisions "because of the nature and genesis of the boards[,]" Judge Davis wrote, should have been dispelled by Congress's intent to make the boards "*the* fact-finders" within their spheres. (Emphasis original.) Judge Davis noted that the reasons the majority offered for a judicial re-trial of the administrative fact findings were "the same policy considerations which Congress and the Supreme Court have already discarded in the Wunderlich Act and the *Bianchi* opinion." *Id.*, at 421, n. 18, quoting 339 F.2d, at 618.

This preface to *Utah Construction's* recitation of the elements that would generally support applying collateral estoppel to findings of administrative entities lends strong support to the view that the Court was assuming an affirmative Congressional intention that the subject body serve as the ultimate fact-finder, i.e., an "administrative agency . . . acting in a judicial capacity." *Id.*, at 422.

But such a contention is not even necessary to the disposition of the question as it relates to the TTAB. In this instance, there is an affirmative Congressional intention that the TTAB is *not* to be the ultimate finder of fact, even within its narrow administrative realm.

The significance of a particular board's place in the administrative machinery devised by Congress was not lost on the Eighth Circuit in *Flavor Corporation of America v. Kemin Industries, Inc.*, 493 F.2d 275 (8th Cir. 1974). Specifically at issue there was whether the Court of Customs and Patent Appeals (CCPA) was a court of competent jurisdiction for purposes of according collateral estoppel effect to its fact findings. *Id.*, at 280.

> In *John Morrell & Co. v. Doyle*, 97 F.2d 232 (7th Cir.), cert. denied, 305 U.S. 643, 59 S.Ct. 146, 83 L.Ed. 415 (1938), the court held that CCPA determinations were not entitled to collateral estoppel effect in subsequent infringement actions because the CCPA was not an Article III court. When *Morrell* was decided in 1938, the CCPA was merely an administrative arm of the patent Office. *Postum Cereal Co. v. California Fig Nut Co.*, 272 U.S. 693, 47 S.Ct. 284, 71 L.Ed. 478 (1927).
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> *Id.*, at 280.

The *Flavor Corporation* court noted, however, that Congress subsequently elevated the CCPA to the status of an Article III court, and that thereafter in *Brenner v. Manson*, 383 U.S. 519 (1967), this Court reviewed the status of the CCPA and declared its decisions "final and binding in the usual sense." *Postum* was declared to have "no vitality in the present setting." And, as the *Flavor Corporation* court noted, "[t]he rationale for *Morrell* expired with *Postum.*" *Flavor Corporation*, at 280-281, quoting *Brenner*, at 526, 527. Thus, the CCPA was no longer merely an "administrative arm" of the Patent Office; the *Flavor Corporation* court's ruling that CCPA findings were entitled to collateral estoppel effect was expressly based on its status in the administrative scheme devised by Congress. Certainly, that ruling

was consistent with the concerns addressed in *Utah Construction, supra.*

Petitioner, overlooking the expressed rationale of *Flavor Corporation,* urges that its ruling as to the CCPA should control the instant question as it relates to the TTAB. But, as alluded to in footnote 2 of the opinion below (App. C., p. 74a), the TTAB's position in the administrative structure for the federal registration of trademarks is dramatically different from that of the CCPA in the *Flavor Corporation* case.

Under 15 U.S.C. §1071(b), a party who is dissatisfied with the TTAB's decision has the option of seeking a trial *de novo* in federal district court, in which "the record in the Patent Office shall be admitted on motion of any party . . . without prejudice to the right of any party to take further testimony." In that case, "[t]he testimony and exhibits of the record in the Patent Office, when admitted, shall have the same effect as if originally taken and produced in the suit." 15 U.S.C. §1071(b)(3).

Such affirmatively indicates Congress's intent *not* to give preclusive effect to the findings of the TTAB. *American Heritage Life Insurance Co. v. Heritage Life Insurance Co.*, 494 F.2d 3, 9 (5th Cir. 1974). Unlike the situation in *Utah Construction, supra,* here Congress did not intend for the TTAB to be *the* ultimate finder of fact; in marked contrast to the *Utah Construction* statute, here Congress included in the statute a provision that, if anything, *discourages* the parties from making a complete presentation to the TTAB. Unlike the situations in *Flavor Corporation* or *Brenner, supra,* Congress did not intend that the TTAB's decisions be treated as "final and binding in the usual sense." As was the CCPA prior to the statutory changes mentioned in *Flavor Corporation,* the TTAB is in Congress's scheme merely an administrative arm, and not an adjudicatory body with the power to bind others with its decisions.

The court of appeals below, as did this Court in *Utah Construction* and as did the Eighth Circuit in *Flavor Corporation,*

recognized that the preclusive effect of an administrative decision could be prescribed or limited by Congress. (App. C., p. 72a-73a) The court cited *Alexander v. Gardner-Denver Co.*, 415 U.S. 36, 48-51 & n. 10 (1974), as an example of a congressional limitation of the preclusive effect of administrative decisions in an area where the administrative rights involved were intended to supplement, and not to supplant, other legal rights. Moreover, reasons of practicality may determine whether collateral estoppel effect should be given to an administrative ruling. *See, United States v. Stone & Downer*, 274 U.S. 225 (1927); *Grose v. Cohen*, 406 F.2d 823 (4th Cir. 1968).

In the case of a TTAB decision, both notions interact to weigh against according it preclusive effect. The federal trademark registration mechanism is just that: a system for the registration of trademarks. Granted, registration results in certain benefits to the registrant. But it has long been firmly established that those benefits are supplementary to, not in place of, the trademark owner's common law rights. *Wrist-Rocket Manufacturing Company v. Saunders Archery Company*, 578 F.2d 727 (8th Cir. 1978). Indeed, prior to the statutory changes that gave rise to the *Brenner* decision, the CCPA itself acknowledged that

> [t]he function of the Commissioner of Patents in administering the Trade-Mark Act is administrative in character. It is derived wholly from the statute, and he is governed by its terms. The jurisdiction of this court in the cases appealed from the Commissioner is likewise purely statutory and we are limited in the same way that the Commissioner is limited. *Vide Postum Cereal Co. v. California Fig Nut Co.*, 272 U.S. 693, 698, 699, 47 S.Ct. 284, 71 L.Ed. 478.
>
> The duty of the Commissioner and of this court on appeals from the Commissioner, in all cases, is simply to determine whether an application meets the statutory requirement so as to be entitled to registration. Registration being granted or refused leaves the parties in interest, with their rights and equities, under the common law, legally unaffected, except as they may be enforced under sections 16 and 17, 15 U.S.C. §§96 and 97.

> *Morrell, supra* at 235, quoting *Goodrich Co. v. Kenilworth Mfg. Co., Inc.*, Cust. & Pat. App., 40 F.2d 121, 122.

Thus, petitioner's charge that respondent "blatantly" continued to use his mark after the TTAB decision (Pet., p. 15) is wholly impertinent. Any number of practical reasons, economics foremost among them, might lead an applicant with his common law rights already in hand to abandon the quest for the additional benefits of registration at, to use petitioner's term, the "interim" administrative level. Indeed, Congress's intent that the TTAB's decisions not be accorded preclusive effect is consistent with the notion that the trademark registration process does not implicate or supplant an applicant's common law rights in the first instance.

And, for both policy and practical reasons, petitioner's view that the TTAB decision entitled it to summary judgment in a subsequent infringement action is *inconsistent* with that notion. If that were the case, an applicant who merely seeks the supplemental benefits of registration would place his heretofore separate common law rights at risk by the very act of applying. The public benefit of order and uniformity furnished by the trademark registration system would be diminished by such an all-or-nothing proposition; so much would be at stake that only those with the economic wherewithal to litigate to the top of the administrative process could risk applying for registration.

In light of the clear Congressional intent that findings at the TTAB level are not final and conclusive, respondent's abandonment of the administrative process at that point was nothing more than an abandonment of his attempt to gain the supplemental benefits of having his trademark placed on the federal registry before that process reached a stage at which his other legal rights might be affected, i.e., a proceeding under 15 U.S.C. §1071.

Petitioner asserts that such a notion disregards the "import" of the TTAB and "cast[s] doubt upon its basic reason for existence." On the contrary, the court of appeals' view of the

TTAB's place in the trademark registration process is fully in accord with the board's import as reflected in 15 U.S.C. §1071 and as assessed under the principles described in *Utah Construction* and *Flavor Corporation*.

Moreover, the court of appeals did not ignore the practical effect of the TTAB's expertise in trademark matters. The court noted that "Fifth and Eleventh Circuit precedent establishes that the findings of the TTAB will control in a subsequent infringement suit unless the contrary is established by evidence that, in character and amount, carries 'thorough conviction'[,]" citing *American Heritage Life Insurance Co., supra*, and *Aloe Creme Laboratories, Inc. v. Texas Pharmacal Co.*, 494 F.2d 72 (5th Cir. 1964). This augmented standard of proof, the court observed, "arises out of respect for the expertise of the TTAB." (App. C., pp. 78a-79a)[3]

The court of appeals' treatment of this question was fully consistent with the decision of this Court in *Utah Construction*, with the decision of the Eighth Circuit in *Flavor Corporation*, and with the Congressional intent behind the administrative scheme of which the TTAB is a part. It does not present an issue worthy of this Court's review.

## QUESTION TWO

DOES A DISTRICT COURT VIOLATE THE RULE OF LAW SET BY THE SUPREME COURT IN *MORGAN V. DANIELS, INFRA*, THAT A FINDING OF CONFUSING SIMILARITY OF MARKS BY THE PATENT OFFICE MUST BE ACCEPTED AS CONTROLLING ABSENT THE CONTRARY ESTABLISHED BY EVIDENCE, WHICH IN CHARACTER AND AMOUNT CARRIES THOROUGH CONVICTION, WHEN THE DISTRICT COURT REFUSES TO ALLOW ENTRY OF THE ADMINISTRATIVE DECISION OR ANY REFERENCE TO THE SAME DURING TRIAL?

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[3] The court of appeals was also satisfied that the district court had applied the correct standard of proof. (App. C., pp. 79a-81a)

In other words, petitioner asks whether the district court rendered an erroneous evidentiary ruling when it precluded reference to or introduction of the TTAB proceeding before the jury. Respondent submits that, in the context of this case, that question is not worthy of this Court's review; indeed, it does not arise from the decision of the court of appeals.

The court of appeals noted that petitioner challenged the district court's exclusion of references to the TTAB proceedings " 'in the presence of the jury.' " But the court expressly declined to pass on the propriety of the ruling because the trial court rescinded it after the jury was discharged. "Explaining that the exclusion of the TTAB proceedings had been for the benefit of the jury, the [district] court stated that re-argument of the issue would not be necessary and that the material could come in." (App. C., p. 75a) [Petitioner's contrary claim that the district court "reasserted its ruling" (Pet., p. 20) is simply incorrect.]

The court of appeals then noted three important facts: first, that the subject evidentiary ruling merely excluded references to the TTAB proceeding, but left petitioner free to present the same evidence the TTAB had considered; second, that petitioner never proffered the material it wished to introduce, and after the ruling was rescinded petitioner failed to avail itself of numerous opportunities to present evidence of the TTAB proceedings; third, as conceded by petitioner, the trial court actually reviewed the findings of the TTAB before making its ruling. (App. C., pp. 75a-77a)

Thus, the court of appeals ruled, any error in the challenged evidentiary ruling was harmless, and "the choices of counsel rather than the rulings of court were responsible for the exclusion." (App. C., p. 77a)

The court of appeals' application of well-established rules of appellate review hardly qualifies as a departure from the rulings of either this Court or another circuit court. There is no decisional conflict in this regard, and no reason for this Court to expend its much-demanded energies on its account.

But with respect to the first question presented in the pending petition, it is significant to note the primary reason petitioner asserts for its argument that TTAB decisions must be admitted to evidence. That is, that *Morgan v. Daniels*, 153 U.S. 120 (1894), requires that a TTAB finding as to likelihood of confusion of marks must be accepted as controlling unless the contrary is established by evidence which in character and amount carries thorough conviction. Of course, as petitioner asserts, such would seem to contemplate the admission of the TTAB ruling into evidence. Concomitantly, such also contemplates the admission of evidence in *contradiction* of the TTAB ruling. In other words, a prior TTAB finding raises the standard of proof, but it does not have the preclusive effect of collateral estoppel.

Finally, petitioner's assertion that the court of appeals "erred by [its] substantial failure to consider" the TTAB ruling and thus, impliedly, failed to give it sufficient weight under the "thorough conviction" standard, is flatly disproven by the court of appeals' opinion. (App. C., pp. 77a-81a, 82a, 88a, 90a, 95a, 98a, 102a)

## CONCLUSION

Fully consistent with established principles governing the degree of deference to be paid to the expertise of administrative bodies, the court below noted that one who seeks to overcome a TTAB ruling must meet an augmented standard of proof, that is, by evidence which in character and amount carries thorough conviction.

At the same time, fully consistent with established principles governing the final judicial authority vel non of administrative bodies, and in light of the TTAB's position in the administrative scheme for the registration of trademarks, the court below recognized that the TTAB's rulings are not entitled to preclusive collateral estoppel effect.

The decision of the court of appeals below does not conflict with any decision of this Court or of any other circuit court of appeals. For this reason, the petition for writ of certiorari should be denied.

Respectfully submitted,

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